

Mold-tek Packaging is a player in the rigid plastics industry which caters to companies in the industries of Paints, Lubricants, Food & FMCG. The company uses the IML method to manufacture plastic containers and is the leader in IML packaging.

Why we like this company?

- Leading to the after effects of the pandemic, hygiene has become number 1 concern. This makes IML packaging lucrative since there is not human intervention. A lot of existing as well as new customers have shown interest in IML packaging.

Key takeaways from interactions with the company

1. Double digit volume growth for the coming years

- The management is confident on cracking volume growth because of its expertise and intellect in IML packaging, being the only company to be able to produce larger than 4 Litre containers in India.

2. Higher EBITDA per Kg going forward

- The EBITDA\Kg grew at a CAGR of 6.1% from FY15 to FY21, currently at Rs. 36.72 for FY21. But Q4FY21 registered Rs 41.88 and Q1FY22 was Rs 42.4 which gives comfort for delivering higher EBITDA\kg margins. Conservatively, company is confident to achieve 38-39Rs in FY22

Valuation & Outlook

We are positive on all the factors present in Mold-Tek Packaging. The company is on path to set up its plant in Kanpur along with other greenfield and brownfield expansions going forward. Being the leader in IML packaging, it has the freedom to explore in value added services, which included QR enabled IML. Keeping these and all the other factors in mind, **we value MoldTek at 22x of FY23 EPS and arrive at a target price of 612.**

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	3,940.9	4,374.4	4,789.3	6,571.9	7,550.8
EBIDTA	719.5	800.4	959.6	1,329.5	1,576.2
Margins	18.26%	18.30%	20.04%	20.23%	20.88%
Adjusted net profit	310.4	404.2	488.8	725.3	889.3
EPS (Rs)	11.2	14.6	17.5	25.1	27.8
P/E (x)	44.1	33.9	28.2	19.7	17.7
EV/EBITDA (x)	20.3	18.5	15.4	11.5	10.4
RoCE (%)	20.39%	19.97%	20.86%	26.13%	27.43%
RoE (%)	16.29%	20.50%	19.11%	24.04%	22.19%

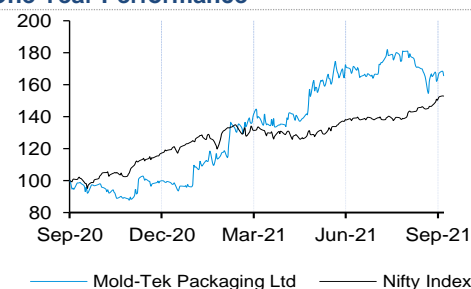
Source: Dalal & Broacha Research, Company

Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	612	24

Market data

Current price	Rs	494
Market Cap (Rs.Bn)	(Rs Bn)	13
Market Cap (US\$ Mn)	(US\$ Mn)	178
Face Value	Rs	5
52 Weeks High/Low	Rs	571/250
Average Daily Volume	('000)	46
BSE Code		533080
Bloomberg		MTEP:IN
Source: Bloomberg		

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	35.13	35.22
Public	64.87	64.78
Others	0.00	0.00
Total	100	100

Source: BSE

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Company Background:

MoldTek Packaging is into rigid plastics and services industries such as Paints, Lubricants, Food & FMCG. The company has recently ventured into business of pumps. MoldTek has been around for a long time and has been able to build long standing relation with its customers and record strong order growth with predictability.

The company has 9 operational plants to manufacture rigid plastics for its customers. The company uses In Mold Label (IML) technique to manufacture. The process is preferable as it does not involve human intervention and saves time while for the client, it helps in avoiding counterfeit and supply chain tracking. The company has been able to master the technique overtime with continuous testing. As a result, MoldTek is the only company in India to manufacture containers larger than 4 litres.

Overview:

Indian packaging industry valued at \$75 billion in 2020, expected to reach \$204.81 billion by 2025, CAGR of 26.7%.

Over the past 5 years, the company has grown 9.3% CAGR in volume (tonnage per annum) and currently at 26,300 tonnes for FY21. 11.7% CAGR for 5 years in Revenues and 16% CAGR in EBITDA.

FY21 Revenues were 4,789 Mn, Gross margins at 43.1%, EBITDA at 959.6 Mn (margins at 20.04%) and PAT stood at 480.8 Mn.

We expect the company to deliver double digit volume growth going forward.

The closest competitor of MoldTek is Hitech Corporation which is the largest supplier to Asian Paints (and also a related company to Asian Paints) but no rigid plastics packaging company comes close to MoldTek with respect to innovation and R&D. The company has over the years spent comfortably for R&D which has put them in a leading position (cracking IML process and introducing Value Added Services).

MoldTek Packaging has a proven track record with delivering growth. The pandemic has helped MoldTek as more clients have approached for a concern with hygienic packaging which is provided in IML packaging.

Takeaways from Management Interaction and Quarterly Result Conference Call Segmental Opportunities:**Paints:**

- Mold-Tek has 25% market share in paints industry. Paint companies are growing at a rapid pace but the IML penetration is only 3-4% for the entire industry. Paints remain the largest contributor for Mold-Tek because of high and growing volumes and will continue to dominate the topline going forward.
- Paints contributed 53% in value and 58% in volume in Q1FY22. The company serves almost all large clients in the paints segment, Asian Paints being its largest client. IML Vs Non IML mix for Q1FY22 was 63% Vs 37% of which majority of non IML was due to paints. This shows immense room for growth in paints itself. The company has received IML orders from certain paint companies while positive responses from others. Strong performance and growth of paint companies is a credible indicator of demand for containers.

Lubricants:

- Lube companies have received IML very positively as they face maximum risk of duplication. Certain companies have already shifted their packaging completely for IML. Lubes contributed 24% in volume and 22% in value terms in Q1FY22.

Food & FMCG:

- This is one of the fastest growing segments and core growth segment as it has ample opportunities. Food & FMCG contributed 19% in volume and 25% in value in Q1FY22. The food and FMCG segment registers 7-8 new clients every month. The company has started confectionary and sweet boxes orders from Q1FY22. Recent sub-segments ventured include Dates, Restaurants and Ice Cream. While ice cream saw some setback due to the pandemic, it was covered by seeds, fertilizers and other segments. Edible Oil and Ghee are growing at 30-40% and are expected to do so. Overall Food & FMCG is expected to grow at 20-25%.
- The key benefit of Food & FMCG is the vast range of sub industries available to access. The company keeps on trying and experimenting different styles/types of value add services because even if one service clicks then it would result in incremental volume growth.

Pumps:

- Are one of the highest margin products, currently the company is doing 1.5 mn pumps a month and expects to end the year with 4-5 mn per month (in production). The company started manufacturing pumps since February 2021. Currently the company manufactures twist & lock and lockdown pumps, the company is also exploring an additional range of caps & closures like trigger pumps for shampoos.
- Company expects to reach 50% capacity utilisation this year and 75% in FY23. Pumps are receiving a lot of traction, the company has already received orders/intent of orders from big companies like Reckitt Benckiser, HUL, ITC, Wipro etc. The orders are expected to come in form Q3 since all the companies. Companies importing pumps from China have stopped the import because of heavy duties but they have stock till September so their orders will start to flow in post that.
- Pumps are expected to reach Rs. 20 crore in FY22, doubling in next year to Rs. 40-50 crore and to reach Rs.100 crore in the next 3 years time. The company is currently only into sanitizer and soaps but intends to enter into cosmetics and premium oils in the future.

Capacity ramp-up:

- The company has completed the process of increasing capacities at Vizag, Mysore and Hyderabad. Vizag and Mysore are mainly for Asian Paints. The company will further continue to expand its capacities at these two locations to meet growing demand.
- Kanpur facility commercial production will start from September (which will mainly service Nerolac). Further capacity will be added in Kanpur later.
- 2.7 Acres of land acquired in UP near to Berger Paints plant which will be constructed by 2023 (when Berger will be ready). 1,500 tonnes capacity but will start by end of current year.

Capex:

- Total capex of 50 Crs for FY2022 is approved of which 33 crores has been committed and completed. This includes 5 crs for additional capacity in UP and 5-6 crs for Sultanpur.
- Sultanpur capacity will not be operational this year. The facility is for Food & FMCG production.
- FY22 & FY23 capex for Berger and Nerolac will be approximately 20 crs

New clients:

- BPCL has given order worth 70 crs, span over next 2 years approximately while Gulf has given order worth 15-20 crs for this year.
- The company has been looking to venture into the Agrochemicals space as well and has received an encouraging response from some of the leading companies.
- The company adds approximately 10-12 new clients every month who contribute approximately 1Cr to the annual topline.

Value Add Services (VAS): QR Enabled IML

- The company has received orders from many clients while big names such as Asian Paints, Castrol, etc have shown interest.
- Overall, lubricants are expected to adopt QR first as they have the maximum counterfeit issue.
- IML products deliver EBITDA of 45rs per kg while non IML give less than 30Rs per kg. QR enabled IML will be much higher than IML also.
- QR enabled IML is just 1 form of VAS provided by MoldTek, the company keeps innovating and experimenting with its own established R&D section for other VAS. Any additional VAS will result in incremental volume growth.

Peer Comparison

Company	Net Revenue from Op. (Mn)		EBITDA (Mn)		Operating Profit Margin	
	FY20	FY21	FY20	FY21	FY20	FY21
Mold-Tek Packaging	4,374.37	4,789.25	800.44	959.60	18.30%	20.04%
Huhtamaki (CY19, CY20)	25,989.80	24,627.00	2,942.50	2,344.80	11.32%	9.52%
Uflex	74,048.40	88,907.60	10,814.50	17,942.40	14.60%	20.18%
EPL	27,614.00	30,916.00	5,575.00	6,111.00	20.19%	19.77%
Hitech Corp	4,600.90	4,470.80	589.10	640.80	12.80%	14.33%

Company	PAT (Mn)		ROE		ROCE	
	FY20	FY21	FY20	FY21	FY20	FY21
Mold-Tek Packaging	381.90	480.75	20.50%	19.11%	19.90%	20.79%
Huhtamaki (CY19, CY20)	1,700.40	959.90	27.40%	13.20%	23.20%	14.60%
Uflex	3,725.60	8,423.70	8.30%	16.50%	9.60%	15.40%
EPL	2,122.00	2,452.00	14.50%	15.20%	15.80%	16.90%
Hitech Corp	23.60	169.60	1.40%	9.80%	7.90%	12.60%

Company	CMP	No. of shares	M.Cap (Mn)	EPS (Bloomberg)		PE (Bloomberg)	
				FY22E	FY23E	FY22E	FY23E
Mold-Tek Packaging	494.00	27.91	13,787.54	25.07	27.84	19.70	17.74
Huhtamaki	264.00	75.52	19,937.79	20.88	25.05	12.64	10.54
Uflex	490.00	72.21	35,383.63	133.75	153.90	3.66	3.18
EPL	238.00	315.57	75,104.61	9.67	12.01	24.61	19.82
Hitech Corp	217.00	17.18	3,727.13	NA	NA	NA	NA

Note: MoldTek Packaging FY23EPS is post dilution of 3.01 Mn shares

Key Observations:

- There is no apple to apple comparison, however we have tried to conduct a comparative with different packaging companies.
- Mold-Tek's ROE & ROCE are highest compared to its peers with EBITDA margins above the average at 20% (almost equivalent to the highest).
- Hence, we believe with a 25% market share in paint containers and expected high growth, it will enjoy premium valuation.

Outlook & Valuation:

- MoldTek has received good traction for its QR enabled IML and moreover it has also received good response for its other products such as square packs, hinge packs, sweet packs, etc. With a large portfolio, the lack of demand from one segment can be offset by another. Plus the company plans to continue its innovation segment which is a very big plus. This year, the company is going to focus on expanding its capacities for Asian Paints, launch of sweet boxes and foraying into untapped markets such as cashew, Oat and Seeds.
- The current market share of MTEP is 25% in paints. The overall (rigid) plastic packaging opportunity size in paints is Rs 1500-1600 Cr and the company is only targetting top 5-6 organized paints players. Alongside, the addressable market size for lubes and paints is Rs 2000 Cr in rigid packaging.
- The company plans to introduce 6-10 new products every year. 10-12 new products will be available by the end of current year. Revenue from QR coded IML is expected to come in from H2FY22 but sizeable difference can be seen next year only. Few clients are seriously considering shift to QR enabled IML
- Going forward the company is confident of achieving double digit growth and improved profitability for next few years owing to expansion and widening of product range with higher value addition.
- **At CMP of 494, MoldTek trades 17.7x of FY23 EPS. Keeping these and all the other factors in mind, we value MoldTek at 22x of FY23 EPS and arrive at a target price of 612.**

Financials

P&L (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net Operating Income	3,940.9	4,374.4	4,789.3	6,571.9	7,550.8
Raw Materials	2,387.2	2,498.6	2,724.0	3,808.6	4,375.7
Employee Cost	404.5	309.0	326.9	410.7	460.0
Other Expenses	429.6	766.3	778.7	1,023.1	1,138.8
Total Expenses	3,221.4	3,573.9	3,829.7	5,242.4	5,974.5
Operating Profit	719.5	800.4	959.6	1,329.5	1,576.2
Depreciation	147.4	190.7	214.9	267.9	302.9
PBIT	572.1	609.7	744.7	1,061.5	1,273.4
Other income	13.4	11.6	6.0	11.0	11.0
Interest	70.8	101.9	99.4	102.9	95.5
Extraordinary Items	115.0	28.6	10.8	-	-
Profit before tax	399.6	490.8	640.5	969.7	1,188.9
Provision for tax	158.6	108.9	159.8	244.4	299.6
Reported PAT	241.0	381.9	480.8	725.3	889.3
Extraordinary Items	115.0	28.6	10.8	-	-
Minority Interest					
Adjusted PAT	310.4	404.2	488.8	725.3	889.3
Growth Ratios (%)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	16.09%	11.00%	9.48%	37.22%	14.90%
Operating Profit	13.35%	11.25%	19.88%	38.54%	18.56%
PAT	-23.94%	58.44%	25.88%	50.87%	22.61%
Per Share (Rs.)					
Net Earnings (Adj. EPS) (FV5)	11.2	14.6	17.5	25.1	27.8
Cash Earnings (CPS)	14.0	20.7	24.9	34.3	37.3
Dividend	4.0	5.0	7.0	9.0	9.0
Book Value	68.8	71.1	91.7	104.3	125.5
Valuation Ratios					
P/E(x)	44.1	33.9	28.2	19.7	17.7
P/B(x)	7.2	6.9	5.4	4.7	3.9
EV/EBIDTA(x)	20.3	18.5	15.4	11.5	10.4
Div. Yield(%)	0.81%	1.01%	1.42%	1.82%	1.82%
Return Ratios (%)					
ROE	16.29%	20.50%	19.11%	24.04%	22.19%
ROCE (Excluding Financial Liability)	20.32%	19.90%	20.79%	25.99%	25.43%
ROCE (Excluding Cash & Bank)	20.39%	19.97%	20.86%	26.13%	27.43%

Balance Sheet	FY19	FY20	FY21	FY22E	FY23E
Equity capital	138.5	138.6	139.6	144.6	159.7
Reserves	1,767.5	1,832.4	2,418.8	2,871.9	3,848.6
Net worth	1,906.0	1,971.1	2,558.4	3,016.6	4,008.3
Def. Tax Liab.+Minority Int.	130.6	116.1	120.5	120.5	120.5
Longterm Debt	169.0	278.0	201.0	245.6	176.6
Short Term Debt	740.2	814.6	822.5	822.5	822.5
Total debt	909.2	1,092.6	1,023.5	1,068.1	999.1
Other Non current Liabilities	1.7	0.9	0.3	0.3	0.3
CAPITAL EMPLOYED	2,947.5	3,180.7	3,702.6	4,205.4	5,128.1
Gross block	2,350.2	2,778.8	3,308.7	3,801.4	4,292.5
Accumulated depreciation	357.3	546.3	761.2	1,029.1	1,332.0
Net block	1,992.9	2,232.5	2,547.5	2,772.3	2,960.5
Capital WIP	160.4	115.3	113.0	130.6	148.1
Total fixed assets	2,153.3	2,347.8	2,660.6	2,902.8	3,108.6
Goodwill					
Investments					
Inventories	438.5	500.0	708.2	834.8	959.1
Sundry debtors	663.8	579.9	901.3	1,188.3	1,365.3
Cash & bank	8.8	9.7	12.0	22.7	365.6
Loans & advances	39.1	7.6	3.2	3.5	3.9
Other current assets	116.2	167.9	65.7	170.9	196.3
Sundry creditors	178.9	180.3	322.3	469.6	359.6
O. Current Liabilities	291.0	260.1	320.4	440.4	501.9
Provisions	15.6	5.0	9.1	11.3	12.7
Working capital	780.7	819.6	1,038.5	1,299.0	2,016.0
Current Tax Assets (Net)	13.6	13.2	12.3	12.3	12.3
Current Tax Liabilities (Net)	-	-	8.7	8.7	8.7
CAPITAL DEPLOYED	2,947.5	3,180.7	3,702.6	4,205.4	5,128.1

Source: Dalal & Broacha Research, Company

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